Recent Changes Advance New Markets and Livability Initiatives

The New Markets initiative boosts the economies of places left out of the 1990's expansion. The Livability initiative promotes smart-growth policies, preservation of natural amenities, and other locally based policies addressing growth and quality-of-life issues. Both initiatives draw on relatively new programs that have grown recently.

In January 1999, the Clinton administration included in its budget proposals for fiscal year 2000 two initiatives with significant implications for rural development: the New Markets and Livable Communities initiatives. The New Markets initiative is aimed at stimulating development in economically distressed areas. The Livable Communities (or Livability) initiative addresses sprawl, congestion, pollution, crime, and other quality-of-life issues that are important for community and economic development. Although Congress did not act on most of the main proposals associated with these initiatives in 1999, progress has been made in implementing parts of these initiatives, which continue to be featured in the President's budget for 2001.

Both initiatives derive in large part from the long economic expansion of the 1990's, which has produced uneven results, as some places have grown rapidly while others still suffer high unemployment or population decline. Rural America is diverse, containing both types of places: those trying to cope with rapid growth (such as in the West and Rocky Mountains) and those still struggling with economic stagnation or decline (such as in the northern Great Plains and in parts of the Mississippi Delta and Appalachia). Some rural areas on the Southwest border are simultaneously experiencing both problems (fig. 1).

The New Markets Initiative

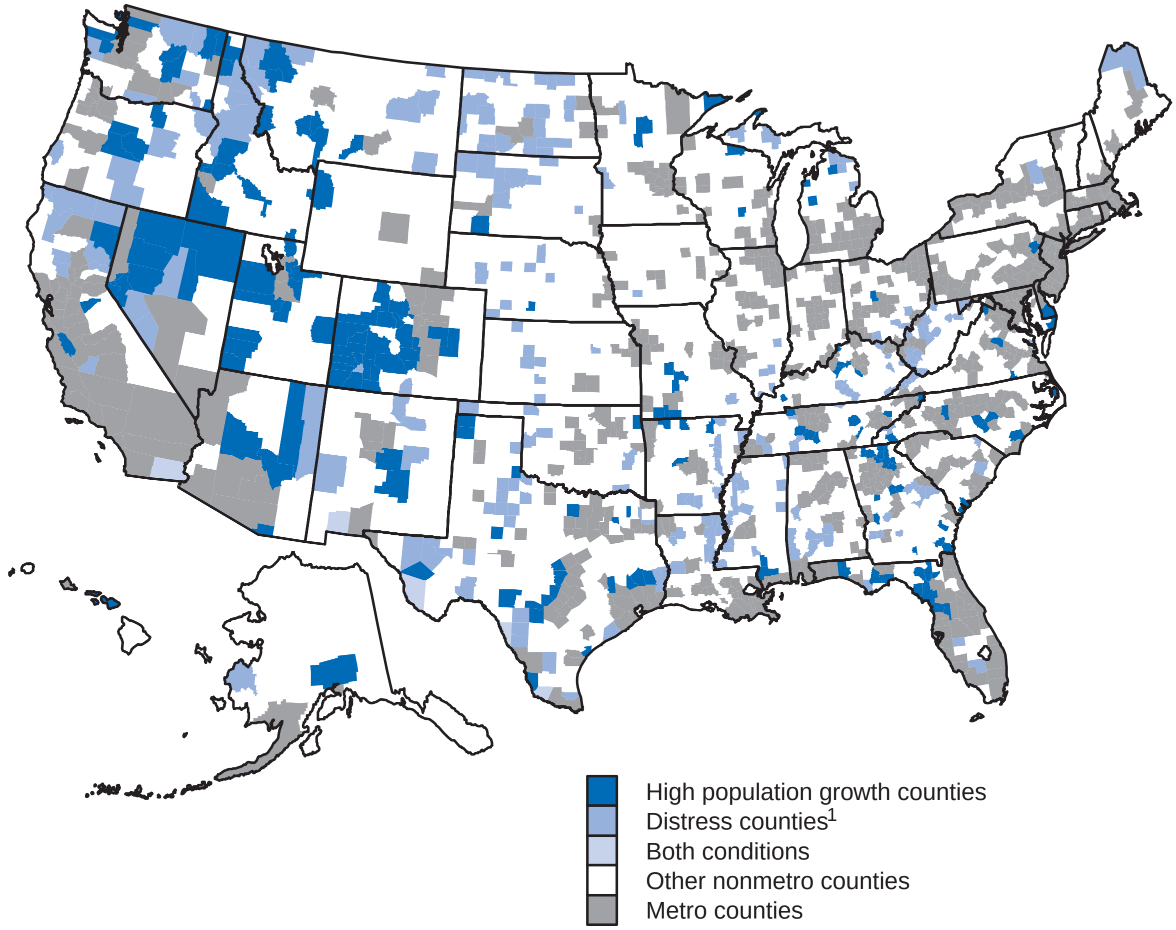
The U.S. economy has grown so rapidly in recent years that labor shortages are surfacing in many areas, threatening to limit economic growth and increase inflation. The New Markets initiative would provide tax and credit incentives and other forms of business assistance to encourage the private sector to invest more in distressed inner cities, rural areas, and Indian reservations. These are "new markets" in that many firms have overlooked them while expanding elsewhere. They may also be underserved by capital markets because they have underutilized labor and land and are short of capital needed to put those resources to use. Given the current robust economy, now may be an ideal time to try to direct capital and technical assistance to these places. If successful, this initiative would (1) increase national economic growth by tapping underutilized resources, and (2) increase economic equity by providing more jobs and income to high-poverty areas.

Targeting Federal assistance to distressed areas is not new. Many long-established Federal development programs directed by the Economic Development Administration (EDA), USDA's Rural Development mission, and the Appalachian Regional Commission (ARC) particularly benefit distressed areas. However, the New Markets' focus on tax incentives, business credit, and technical assistance for distressed areas is relatively new, building on some recently created programs that have grown in recent years.

The administration has proposed to expand the Empowerment Zones and Community Development Financial Institutions programs. In addition, several Small Business Administration (SBA) programs (General Business Loans 7(a), BusinessLINC, Microenterprise Loans, and Small Business Investment Companies) would be expanded and/or retargeted to provide more lending and technical assistance to small businesses in underserved areas. In addition, two new SBA programs—PRIME (Program For Investment in Micro-Entrepreneurs) and the New Markets Venture Capital Companies (NMVC) program—would be established.

A new program—America's Private Investment Companies, to be administered by Housing and Urban Development (HUD)—would provide equity capital for large businesses creating or relocating activity in underserved areas. Another proposed HUD program would fund University Partnerships in 10-12 business and law schools to foster business development in low- to moderate-income areas. Related proposals include the creation of

Figure 1
Rural places with economic distress (1998) and high population growth (1990's)
New initiatives are particularly important for rural places with high unemployment and/or rapid growth



[1]Economic distress consists of unemployment greater than 10 percent (in 1998) or population decline (1990-98) greater than 10 percent.
Source: Calculated by ERS using data from the Bureau of the Census and the Bureau of Labor Statistics.

1,000 community technology centers in low-income areas, assistance for distressed farmers, an increase in funding for Native American programs, and the creation of a new Delta Regional Authority that would draw on the resources of a Federal-State partnership to assist the Mississippi Delta region. The administration has also proposed a New Markets tax credit worth up to 25 percent for private investment in underserved areas.

The Clinton administration is not alone in making such proposals. For example, a 1999 House bill known as The American Community Renewal Act proposed to target various tax incentives to distressed urban and rural areas. While it is premature to speculate on the prospects of these and other similar proposals, we can review how programs have already been created, expanded, and revised in recent years to advance New Markets objectives.

Advancing the New Markets Initiative

The Empowerment Zone/Enterprise Community (EZ/EC) program was created in 1993 to help revitalize the Nation's most distressed urban and rural areas. This program, administered by USDA in rural areas, provides tax incentives for businesses and flexible grants to communities in areas of high poverty. It got a boost in 1997 when Congress authorized creating a second round of EZ/EC's. This second round also allowed the program to reach rural places with more diverse economic problems, including places in the Great Plains experiencing outmigration and Indian reservations (which were excluded from the program originally). Beginning with the 1999 fiscal year appropriations cycle, this program's second round of EZ/EC's has been maintained through annual injections of new grant funding.

The Community Development Financial Institutions Fund (CDFI) is another building block of the New Markets initiative. CDFI attempts to revitalize distressed communities by enhancing the ability of selected financial organizations to extend credit and technical assistance to promote community development. This program has several components. The CDFI program assists private, for-profit and nonprofit, financial institutions (CDFI's) to provide capital and services to underserved people and communities. The Bank Enterprise Award (BEA) Program provides incentives for traditional financial institutions to invest in CDFI's. Other components include nonmonetary Presidential Awards for Excellence in Microenterprise Development and the Native American Lending Study and Action Plan. The CDFI Fund has grown over time, starting with $37 million in 1996 and rising to $96 million in 2000.

Because small business startups and expansions are important in the local development process, SBA is expected to play a key role in achieving New Markets objectives. Last year, SBA supplemented its existing programs with New Markets activities. For example, in September, SBA issued new regulations for its Small Business Investment Companies (SBIC) program to help direct more assistance to inner city and rural areas with low- and moderate-income (LMI) areas. SBIC's, which are licensed and regulated by SBA, are privately owned and managed investment firms that provide venture capital and start-up financing to small businesses. The new regulations provide a program of narrowly tailored regulatory and financial incentives to encourage investments in businesses located in LMI areas (or to firms with significant numbers of employees residing in LMI areas). The incentives are available to any SBIC making qualified LMI investments. The incentives fall into two categories. First SBA would allow SBIC's greater regulatory flexibility when structuring and making LMI investments. Second, SBA would make available a deferred-interest form of financing exclusively for the financing of LMI investments. The new financial incentives and flexibility are expected to spur growth in SBIC investments in underserved areas.

SBA is also providing new forms of nonfinancial assistance to small businesses in distressed areas. The BusinessLINC (Business Learning, Investment, Networking, and Collaboration) initiative, launched in December 1998, encompasses several component programs coordinated by SBA and by the Department of Treasury. These include SBA and Treasury mentoring programs, the BusinessLINC Leadership Coalition, and the HUBZone Empowerment Contracting program. Mentoring programs help identify compatible large business mentors for small businesses and provide other forms of technical advice. The BusinessLINC Leadership Coalition of experts works to improve large/small business relationships. The HUBZone program, created in 1998 legislation, targets Federal contracts to small businesses in "historically underutilized business zones."

Other recently created programs advance New Markets objectives. For example, SBA's One Stop Capital Shops (OSCS) provide small business services in Empowerment Zone communities. SBA's Microloan program makes loans to intermediaries who in turn make very small loans to entrepreneurs traditionally considered unbankable due to inexperience with credit, lack of assets, or the need for on-going technical assistance. The Appalachian Regional Commission began a new initiative in 1997 promoting entrepreneurship and the creation and growth of homegrown businesses. The Community Adjustment and Investment Program (CAIP) assists areas affected by the North American Free Trade Agreement (NAFTA). USDA's new BRAVO (Bringing Rural America Venture Opportunities) program promotes more business and public-private partnerships in distressed rural areas. The Brownfields National Initiative, begun in 1998 and jointly operated by EDA, HUD, SBA, and EPA (the Environmental Protection Agency), cleans up prime development land. The Telecommunications Act of 1996 created a universal service fund to help close the "digital divide" between the telecommunication haves and have-nots and provided discounted telecommunications services to schools, libraries, and health care providers, with the rate of discount depending on need and "high cost" factors. All of these relatively new programs particularly benefit disadvantaged communities.

The administration's New Markets initiative has also invoked Federal regulatory powers and the President's influence over public opinion to encourage banks, financial institutions, and large businesses to invest in underserved areas. The 1999 financial overhaul legislation (discussed earlier in this issue) applied the Community Reinvestment Act (CRA) to the banks and holding companies expanding into new areas of activity. The CRA requires banks to serve the credit needs of all communities from which they take deposits, including distressed areas. Not coincidentally, several banks, particularly those seeking Federal approval of mergers, have made major new commitments to extend credit to distressed areas. Increased efforts to enforce other Federal regulations, such as antitrust provisions, may also have encouraged some large businesses to make high-profile contributions to distressed communities. If the threat of regulatory action provided the stick, the President's highly visible July and November 1999 New Markets tours of distressed communities provided the carrot to promote big business involvement in underserved areas. While on this tour, several significant public-private ventures in these places were announced as examples of new markets activities, including a proposal by Banc One Capital Markets and George K. Baum & Company to underwrite $1.5 billion in bonds to finance homes by Native Americans and Burger King's plans to enter into a venture to buy products from a vegetable cooperative in rural Hermitage, Arkansas. Another New Markets tour is planned in early 2000.

The Livability Initiative

Also called the Livable Communities initiative, the Livability initiative addresses a wide array of noneconomic issues associated with development and quality of life. Two of these issues are particularly important from a rural development perspective: preservation of natural amenities and mitigation of sprawl-related problems.

The preservation of natural amenities follows from the notion of sustainable development, which argues that natural amenities must be preserved for rural development to be sustained, since much of the growth and development in rural areas in recent years derives from the attraction of rural scenic landscapes, clean air and water, and outdoor recreation. Although many rural areas possess valuable natural amenities, these tend to be greatest in the more remote rural areas and near mountains and water.

In contrast, sprawl mitigation tends to be of greatest concern in rural areas that are close to growing metropolitan areas. Attracted by the combination of metropolitan job opportunities, low land prices, and rural amenities, many people and businesses are choosing to reside adjacent to growing metropolitan areas. While this may be beneficial to the development of many rural areas, the typical sprawling form of development along major transportation arteries radiating from urban centers creates numerous problems for rural communities, including congested roads, crowded schools, and strained water and waste systems.

The administration's Livability agenda contained proposals to address both of these issues. For example, the administration proposed a new State and local bonding authority for green space preservation (Better America Bonds), and its Land Legacy proposals emphasize land acquisition and conservation, including open space planning grants, low-interest loans for rural smart growth planning and development, and a proposed farmland protection program to help rural communities and farmers preserve their farmland and open spaces. To address sprawl problems, it proposed increased funding of public transportation and other transportation assistance to deal with congestion and first-time funding for the HUD Regional connections initiative to promote "smart growth" strategies across jurisdictional lines and a new grant program to help communities design new schools. The initiative also addresses other community quality-of-life issues—for example, it proposes creating a Regional Crime Data Sharing system.

Advancing the Livability Initiative

Progress has already been made in achieving some of the initiative's objectives. For example, one of the main objectives of amenity preservation was to acquire and conserve environmentally sensitive land. Until recently, only a small portion of the oil and gas royalty monies flowing into the Federal land and water acquisition fund were allowed to be spent on acquisitions, with the rest going to offset the budget deficit. However, last year Congress guaranteed that $900 million could be used for land acquisitions in FY2000, more than double the amount from prior years, and an additional $125 million will be provided annually for urban parks, with $150 million annually for conservation easements, and $1 billion annually for coastal conservation. Although technically a component of the Lands Legacy initatiative, this land acquisition and conservation is complemetary to the Livibility initiative and came about with strong support from the Clinton administration.

The Federal Government has also been using its regulatory powers to protect and enhance natural amenities on Federal lands. For example, EPA provided new guidelines for improving air quality in National Parks. The Interior Department issued stricter rules for pollution from mining on Federal lands and increased the level of protection for endangered species in several areas. The Forest Service continued its moratorium on road building and logging on 40 million roadless acres in National Forests. More generally, EPA has continued to push for reduced levels of smog nationwide—particularly in the eastern United States—and for reduced contamination of coastal waters, rivers, and the Great Lakes (see article on Regulatory Policy).

Many anti-sprawl, smart-growth objectives were advanced by the 1998 legislation of TEA-21 (Transportation Equity Act for the 21st Century), which authorized increased funding through 2003 for most surface transportation programs (for more details, see *RCaT*, Vol. 10, No. 1, pp. 30-35). In addition to a large increase in funding for urban mass transit, which may reduce some of the sprawl pressure on metro-adjacent rural areas, this act included an even larger (32-percent) increase in the main formula grant for rural public transit programs, plus an increase in the smaller Rural Transit Assistance Program.

TEA-21 also provided $120 million for a new Transportation and Community and System Preservation Pilot program, which combines research and grants to improve the efficiency of transportation systems, reduce environmental impacts, and lessen the need for costly, future public infrastructure investments, while ensuring efficient access to jobs, services, and trade centers. New planning provisions encourage greater rural local input into State decisions on how funds are allocated.

Other TEA-21 provisions advance community livability goals: for example, increased funding goes to bicycle and pedestrian walkways, recreational trails, scenic highways, and other transportation enhancements. In addition, TEA-21 establishes and funds a new State-operated air quality monitoring network, codifies timetables for meeting air quality standards, and provides $8.1 billion (over 6 years) for the Congestion Mitigation and Air Quality Improvement Program that helps State and local governments design and implement transit and traffic flow projects to help meet EPA air quality standards.

In addition to the new Transportation and Community and System Preservation Program, several other recent Federal initiatives promote sustained development through research, planning, and partnerships. For example, EPA's new Sustainable Development Challenge Grant Program encourages communities to develop partnerships to plan and develop flexible, locally based approaches linking environmental management and quality-of-life activities with sustainable economic development activities. EDA and the Federal Emergency Management Agency have formed a Hazard Mitigation Partnership to coordinate hazard mitigation programs and help individuals, businesses, and communities become more resistant to natural disasters. EDA has revised its planning guidelines to make them more inclusive and community-friendly. The new Rural Hospital Flexibility Program provides grants to States to develop their own plans for revitalizing rural hospitals and health care partnerships and networks. The American Heritage Rivers Project assists numerous communities along 14 designated rivers to plan and implement locally based sustainable development. In addition, the General Services Administration has established a livability office to look at ways GSA can work with communities that host government facilities to ensure that these facilities support, rather than undermine, local quality of life.

USDA's rural EZ/EC's and REAP's (Rural Economic Area Partnerships) both entail community-based strategic planning to devise development strategies to meet sustainable economic and community development needs. In addition, USDA's new Rural Community Development Initiative will provide grants to increase capacity-building among private and nonprofit community development organizations and low-income rural communities in the areas of housing, community facilities, and community and economic development. USDA's Rural Development field staff are managing a new USDA secretarial initiative: the "Livable Communities" project assisting two pilot communities that will devise their own plans to achieve their own Livability objectives. Rural Development has also helped form several regional compacts, such as in the Mississippi Delta and the Southwest border region, consisting of distressed communities that seek solutions to common problems, aided by technical assistance.

Other USDA initiatives also address livability objectives. For example, the Forest Service is leading an effort to devise a training curriculum for communities interested in applying green infrastructure techniques to community development—this will provide technical assistance to communities interested in developing greenways throughout their communities. The Rural Housing Service, in a joint effort with the Organizations Concerned about Rural Education coalition, recently began a partnership to help rural school districts finance education and facility improvements called the Rural Community Schools Rebuilding Program. USDA's "small farms" and "bio-based product " initiatives also aim at livability objectives.

Conclusion

People today expect more than just jobs from economic development. They want to live and work in communities with a decent quality of life. Many are attracted to rural areas because of the small-town lifestyle and natural rural landscape and environment, and they object to development that seriously erodes these rural amenities. Many also find it hard to reconcile the long-term economic improvements enjoyed by most Americans with the continued stagnation and poverty in distressed central cities, rural areas, and Indian reservations. This represents not only inequity but also inefficiency, as land and labor resources are being wasted that might otherwise contribute to sustaining national economic growth. The long-term solution is to better integrate these communities into the national economy. The New Markets and Livability initiatives seek to achieve these objectives.

The future of some of the initiatives' most ambitious proposals is still unknown, but recent changes in Federal programs and regulations have already furthered the initiatives' objectives. In just a few years, significant increases in funding have gone to EZ/EC's, CDFI's, public transit, universal service for advanced telecommunications, and Federal land acquisition and conservation programs. However, these initiatives are about more than dollars spent. They herald a new way of connecting strategic, bottom-up planning, public-private partnerships, and Federal assistance to achieve sustainable development. Some Federal programs are already making use of improved targeting to places with specific problems and better measuring of program outcomes. In addition, Federal regulatory actions are exerting greater leverage over private sector funds. These developments not only have the potential to enhance the goals of these initiatives, but may also help lay the groundwork for subsequent program improvements. *[Rick Reeder, 202-694-5360, rreeder@ers.usda.gov]*